



HART SCHAFFNER & MARX • ANNUAL REPORT FOR 1965

CLEVELAND PUBLIC LIBRARY
BUSINESS DIV. - 100
CORPORATION FILE





HIGHLIGHTS

| | YEAR ENDED NOVEMBER 30, | | |
|--|-------------------------|---------------|---------------|
| | 1965 | 1964 | 1963 |
| Operating | | | |
| Net Sales | \$164,352,000 | \$143,621,000 | \$126,023,000 |
| Income Before Taxes | 15,235,000 | 10,516,000 | 8,089,000 |
| Net Income | 8,124,000 | 5,255,000 | 3,916,000 |
| Cash Dividends | 2,542,000 | 1,988,000 | 1,690,000 |
| Per Share of Stock* | | | |
| Number of shares | 4,166,587 | 4,049,301 | 3,925,347 |
| Earnings | 1.95 | 1.30 | 1.00 |
| Dividends | .62 | .53 | .47 |
| Financial | | | |
| Working Capital | 55,857,000 | 51,510,000 | 48,505,000 |
| Additions to Property and Equipment—net | 3,076,000 | 2,384,000 | 1,610,000 |
| Depreciation | 2,032,000 | 1,856,000 | 1,895,000 |
| Long-Term Debt | 11,025,000 | 12,780,000 | 13,312,000 |
| Shareholders' Equity | 58,770,000 | 51,470,000 | 47,167,000 |
| Shareholders' Equity Per Share | 14.11 | 12.71 | 12.02 |
| Other | | | |
| Number of Employees | 10,100 | 9,700 | 9,500 |
| Number of Shareholders | 3,400 | 2,800 | 2,500 |
| Number of Retail Stores | 127 | 110 | 101 |

*Figures have been adjusted to reflect the 2-for-1 split March 25, 1965, and the 3-for-2 split January 14, 1966.



LETTER FROM THE PRESIDENT

To Our Shareholders:

Nineteen sixty-five was a year of significant accomplishment for Hart Schaffner & Marx. It was the most successful year in the history of the Company, both in financial achievement and in expansion and growth. Earnings and sales established new records. Dividends were increased twice with a third increase declared to be effective in 1966. This is the eighth successive year in which dividends have been increased, and the 27th consecutive year cash dividends have been paid.

In addition, your Company introduced two new national brands, created a uniform division, expanded its network of retail stores and began construction of a modern warehouse which will increase storage space and greatly improve our warehousing function. The existing warehouse space will be used for additional production facilities.

At their December 16, 1965, meeting, the directors voted a three-for-two split of the common stock effective January 14, 1966. They also increased the dividend to 20 cents a share (after the stock split), or 80 cents on an annual basis.

This was the second stock split and the third cash dividend increase within a 12-month period. Approval of the previous split on a two-for-one basis was voted at the annual meeting in March, 1965. After adjustment for both stock splits, the three cash dividend increases raised the dividend on an annual basis from 53½ cents to 80 cents a share, a 50 per cent increase.

Earnings, including Hickey-Freeman, were at a new record high for the third successive year: \$8,124,000, a 55 per cent increase over 1964's \$5,255,000 and a 107 per cent increase over 1963's \$3,916,000.

Per-share earnings of \$2.92 for 1965 also set a new record. This compares to \$1.95 for 1964 after reflecting the March 25, 1965, two-for-one stock split. After further adjust-



ment for the January, 1966, stock split per-share earnings are \$1.95 for 1965 compared to \$1.30 for 1964—a 50 per cent increase.

Sales continued to set new records. They were \$164,352,000 compared with \$143,621,000 in 1964, or a 14 per cent increase.

The two national brands introduced last Fall were developed because of the growing demand for your Company's products. The brands are Sterling & Hunt and Graham & Gunn, Ltd. Both have great potential for future growth, and the Company is continuing to expand production to meet these and other requirements.

The newly-created uniform division is a

logical expansion of our women's wear business. The division tailors both men's and women's "fashions in business" under the Fashionaire label for financial institutions, airlines and other organizations. This is another area of your Company's operation which has a promising future.

In 1965 Hart Schaffner & Marx added 19 stores to its retail division, more than at any time in its history. This is a fitting accomplishment to celebrate the Company's 40th anniversary in retailing.

The retail division continued its rapid growth, and sales of our products to our own stores increased substantially. Sales to independent dealers also continued to increase proportionately and two-thirds of our total shipments were to these retailers. Your Company now tailors clothing for over 2000 fine men's specialty stores and department stores in all 50 states. They represent an outstanding group of loyal customers, and we are honored to be associated with them.

The results for the year, of course, were influenced favorably by the general strength of the economy and by the constantly growing demand for quality merchandise. This favorable business climate plus enterprising and innovative programs for sales and marketing and careful control of costs in all divisions were responsible for your Company's progress during the year.

If the present favorable economic climate continues to prevail, Hart Schaffner & Marx expects 1966 to be another year of prosperity and growth. Advance orders from retailers for the Spring 1966 season set new records for all divisions of the Company. The retail division will continue its steady growth.

Mr. Eugene Bashore, a retired senior vice president of Blyth & Co., Inc., investment bankers, resigned from the board of directors at the December meeting. Mr.

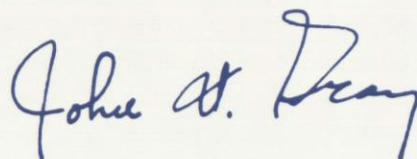
Bashore has served the Company with dedication and great distinction for 21 years. The Board unanimously named Mr. Bashore the first honorary director of Hart Schaffner & Marx. We extend to him our appreciation for his many years of unselfish service.

Mr. Paul A. Conley, senior vice president and director of Blyth & Co., Inc., New York, was elected to succeed Mr. Bashore. We are honored to have Mr. Conley join our Company as a member of the board of directors.

Mr. G. L. Ridenour, who has been associated with Hart Schaffner & Marx for over 30 years, will retire February 28, 1966. For 12 years he was president of Baskin, Chicago, and later was president of Wallachs, New York. Both store groups made remarkable progress under his direction. Your Company is grateful to Mr. Ridenour for his outstanding service and is pleased that he will remain as a consultant in the retail division.

The achievements of the year could *not* have been attained without the complete cooperation of the employees in all divisions of our Company. Your directors join me in expressing our appreciation to them for their dedication and loyalty.

Yours truly,



John D. Gray
President

February 25, 1966



Sales of clothing bearing the Hart Schaffner & Marx label reached new heights for 1965. Advance orders for Spring 1966 are substantially ahead of Spring 1965. The number of new independent retailers added during 1965 surpassed any previous year.

Other areas of promising growth are the two national brands—Sterling & Hunt and Graham & Gunn, Ltd.—which your Company introduced last Fall and the new Fashionaire uniform division.

Your Company is proud of the many fine retailers who feature its clothing. It is a mutually successful association. A respected brand product and a store with a long-standing reputation for quality and service are an unmatched combination in the sale of fine clothing.

Last August Hart Schaffner & Marx unveiled a marketing innovation to aid retailers in counseling the consumer on fashion coordination. Your Company enlisted the cooperation of outstanding manufacturers of accessories to provide shirts, ties and silk pocket squares which would be color- and style-related to our clothing. Promotions

are made available so retailers may present a new program every two weeks during the year.

The Hart Schaffner & Marx promotions are supported by the largest advertising campaign in the men's clothing industry. Magazine advertisements are being published in *Time*, *Newsweek*, *Esquire*, *Sports Illustrated*, *The New Yorker*, *Good Housekeeping*, *Gentlemen's Quarterly* and *Town & Country* magazines. Bob Hope is featured in a number of the advertisements.

Each promotion also is supported with suggested window displays, local newspaper advertisements, direct-mail folders and publicity releases.

The launching of Sterling & Hunt and Graham & Gunn, Ltd., is especially significant since few new men's clothing brands have been successfully established in the last decade. Each of our new brands received an enthusiastic response—both on the part of retailers offering it and the customers who have purchased the clothing.

Seven dominant store groups with a total of 27 stores were selected to introduce the



Sterling & Hunt brand last Fall:

- Davison-Paxon Co., Atlanta
- D. H. Holmes Co., Ltd., New Orleans and Baton Rouge
- Jordan Marsh, Orlando, Fla.
- Macy's, New York
- Meier & Frank Co., Portland, Ore.
- Rike-Kumler Co., Dayton
- Sanger-Harris, Dallas

For Spring 1966 four more store groups representing 21 stores are being added:

- Carson Pirie Scott & Co., Chicago
- Denver Dry Goods Co., Denver
- Maas Bros., western Florida
- Mabley & Carew, Cincinnati

This makes a total of 48 stores. Additional dealers are being selected to feature Sterling & Hunt.

This new brand is comparable to that of Hart Schaffner & Marx but offers retailers a special identity and individual marketing program.

The Graham & Gunn, Ltd., brand represents a more specialized prestige line and is, therefore, purposely offered on a selective basis to quality men's specialty stores. It was introduced in the Fall by F. R. Tripler & Co. of New York, Capper & Capper of Chicago and Detroit, and other fine stores.

Your Company provides many services to its retailers, all created to increase the sales of our products. Sales training materials are furnished dealers to inform and enthuse their clothing salesmen. Twice yearly Hart Schaffner & Marx and Sterling & Hunt distribute to retail salesmen a descriptive Fashion Folio and other literature. In addition, retail salesmen's contests are currently in progress.

Your Company just completed an 18-minute color film called "Behind the Seams" which will be shown to retail salesmen throughout the country. Starring Steve

Below are shown, from left:

1. Magazine advertisement featuring Bob Hope.
2. Suggested Sterling & Hunt window display.
3. One of the Sterling & Hunt introduction advertisements published by Macy's, New York.
4. Jayne Meadows, Harold Ellman, and Steve Allen (right) on set of "Behind the Seams" film.





Allen, Jayne Meadows and Harold Ellman, vice president of manufacturing, the film tells how fine clothing is tailored. It was shown for the first time at the annual meeting of the Menswear Retailers of America held in Dallas in mid-February.

Of all the clothing sales increases, the most dramatic has been in sport coats and slacks. It is anticipated that the continuation of the "leisure boom" in America will cause this trend to accelerate.

Hart Schaffner & Marx has consistently developed new sportswear ideas and styles. One of the most exciting developments has been the introduction of the all-cotton Primavera sport coat tailored of an Italian fabric which is exclusive with your Company. The consumer acceptance of this

Above: A United Air Lines stewardess uniform tailored by the Company's Fashionaire division.

fabric, which has the look, luster and feel of silk, has met with such success that this sport coat—once a Summer garment only—has grown into a year-round product.

The Fashionaire uniform division which your Company has created is a natural expansion of our women's wear business. Hart Schaffner & Marx tailors uniforms for the women employees of banks and savings-and-loan institutions. This division also makes uniforms for the stewardesses and pilots of such airlines as United, Continental, Lake Central, Northwest Orient, Pacific Northern, and Southern.



SOCIETY BRAND

Society Brand sales for 1965 were the highest in the history of the division, and advance orders for Spring 1966 reached an all-time record. During 1965, new accounts were opened in several important marketing areas.

The Society Brand division also markets the Thos. Heath brand, and distribution is being expanded.

Society Brand introduced an important new forward-fashion concept during the past year. Called Matador, this fashion expression is tailored in suits, sport jackets and outercoats. It has had excellent acceptance by retailers throughout the country. The Society Brand division is continuing, however, to emphasize all three basic "looks" which are popular today—tradi-

tional, classic and advance fashion.

Society Brand assists its dealers in promoting new fashion ideas by creating suggested newspaper advertisements, window displays, direct-mail folders, posters, counter cards and newspaper publicity. It creates a semi-annual Fashion Folio as well as other sales-training materials which are distributed to retail salesmen in stores offering Society Brand Clothes. The division also is sponsoring a retail salesmen's contest at present.

Society Brand is distributed by a select group of the highest quality specialty and department stores throughout the country. Its products are having unusual acceptance, both by the dealers and, more importantly, by consumers. The future of Society Brand is exceedingly bright.

HICKEY-FREEMAN

Sales and profits of Hickey-Freeman Co., Inc., which became a part of Hart Schaffner & Marx in 1964, climbed to new peaks during 1965. Advance orders for Spring 1966 for Hickey-Freeman and its Walter-Morton division achieved another new record.

Since it was founded in 1899 Hickey-Freeman has never compromised quality in the tailoring of its clothing. The Hickey-Freeman and Walter-Morton lines are among the most sought-after in America and there has been steady expansion to meet this ever-increasing demand. This trend is expected to continue.

The great strength of Hickey-Freeman has long been in its success in recruiting and training highly-skilled hand needle

workers obtained both in this country and abroad.

Among Hickey-Freeman's outstanding successes in the past year were feature fabrics such as the Corrigan Twills and Pace-maker and Thinlyte tropicals. A topcoat designed expressly for today's jet age was especially popular. Called the Flight Coat in the Hickey-Freeman line and Cloudrider in the Walter-Morton line, it was designed and tailored for air travelers who change climates in a matter of hours.

The greatest sales increase of any category in the Hickey-Freeman line has been in sport coats and slacks in spite of the old concept that the consumer sought lesser quality in sportswear. It is expected that further dramatic increases in sportswear will occur.



Productivity in the five Hart Schaffner & Marx plants during 1965 was expanded dramatically to meet increased volume of orders as well as the requirements of two new national brands—Sterling & Hunt and Graham & Gunn, Ltd.—and the new Fashionaire uniform division (see Marketing on page 4).

This Spring your Company will complete construction of a warehouse which will further increase manufacturing efficiency. It will provide more than 100,000 square feet of space and free current warehousing facilities for production use, thereby enabling your Company to increase production substantially to keep pace with the increased demand for our product.

The warehouse, another facet in Hart Schaffner & Marx' long-range expansion program, is being constructed on a 13-acre tract in Des Plaines, Ill., a suburb northwest of Chicago. This facility, which will be fully air-conditioned and humidity-controlled, is designed to maintain the high quality of our tailored garment. An automated system will provide for the arrival, storage and transfer of garments.

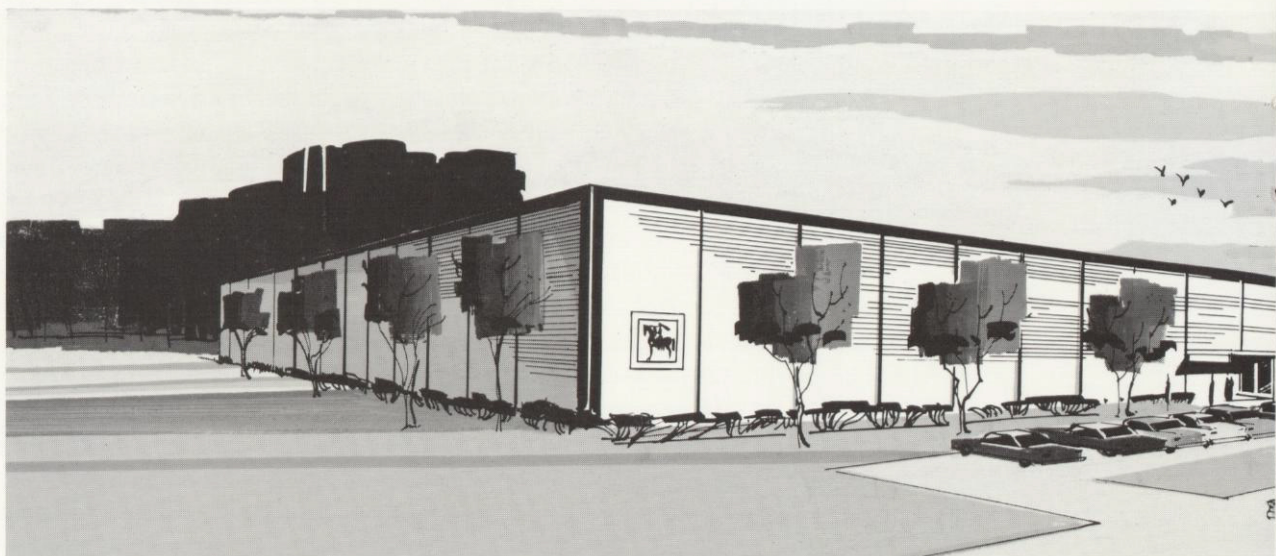
Your Company is pioneering in the use

of one of the newest and most sophisticated computers in the men's clothing industry. It is being used to compile and report manufacturing statistics. The average consumer is unaware of the almost countless variables involved in tailoring clothing. For example, your Company offers over 1700 variations in fabrics, each of which can be tailored in 253 model variations requiring innumerable combinations of threads, inner fabrics, linings, zippers, buttons, and other trimmings. The computer is able to digest in a matter of hours all these variables for orders from more than 2000 dealers.

The computer is used to schedule more efficient cutting of fabrics by grouping all orders of one style or fabric. It helps control fabric waste by determining the exact amount of yardage necessary prior to cutting. It also keeps an up-to-the-minute tabulation on the delivery, processing and inventory of raw materials.

Your Company continually analyzes manufacturing methods to find areas where new equipment, modified manpower utilization, and special techniques can contribute to finer quality and expanded capacity.

Revolutionary changes have occurred in



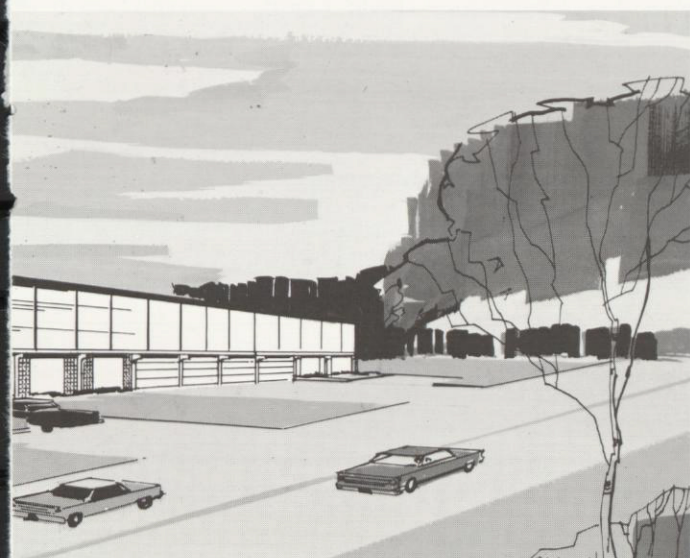
the looming of fabrics. The introduction and blending of fibers such as the synthetics, mohairs and silks with wool have challenged the existing tailoring techniques. Your Company has modified its manufacturing concepts in order to tailor the new fabrics efficiently and with traditional Hart Schaffner & Marx quality.

In 1965 the clothing industry and the Amalgamated Clothing Workers of America entered into a new three-year contract. The industry raised prices for Fall and Spring to offset the wage increases granted last June 1.

A combination of the most knowledgeable production management, the best trained personnel, and the finest equipment and facilities permits the Company constantly to improve its product and maintain its position as the world's largest manufacturer of men's quality clothing.

Right photograph: The exclusive all-cotton Italian fabric in this Primavera sport coat illustrates one of the new innovations in looming.

Below: An artist's sketch of the warehouse now under construction. It was designed to maintain the high quality of a tailored garment.





The retail store division, which expanded at a record rate in 1965, is currently observing its 40th anniversary.

The present network of 127 Company-owned retail stores was begun in 1926. Of the stores now owned by the Company in 48 metropolitan areas, Wallachs with four stores was the first in which an investment was made. Now Wallachs operates 15 stores in metropolitan New York and three additional locations are under consideration.

The retail division has shown steady growth—both in the increase of downtown units and in shopping-center stores. The greatest period of progress has been in the last decade when 48 stores were added in shopping centers and 30 in downtown areas. Your Company's downtown stores have shown sales increases contrary to the trend in many categories of retailing.

Hart Schaffner & Marx opened its first shopping-center unit in 1949. During the last 10 years your Company has added branch stores in shopping centers at a rapid rate as desirable opportunities became available. The pace has accelerated and by November 30, 1966, a total of 56 shopping-center stores will be in operation, an increase of 167 per cent in five years.

In 1965 Hart Schaffner & Marx added more stores than in any other year in its history. Eleven shopping-center stores were opened and eight other stores were added.

Shopping-center stores were opened by:

- Hastings of San Francisco in Northgate (San Rafael) and Southland (Hayward)
- Zachry of Atlanta in North DeKalb and Greenbriar
- Jas. K. Wilson of Dallas in NorthPark and Big Town
- Klopfenstein's of Seattle and Tacoma in Northgate (Seattle) and Tacoma Mall
- Olson & Veerhusen of Madison, Wisconsin, in Westgate
- Lang's of Akron in Summit Mall
- Wolff's of St. Louis in River Roads

Six of the other eight stores added in 1965 are in the Hickey-Freeman group:

- Morris Levy, Savannah, Georgia
- Littler, Seattle (two stores) and Pebble Beach, California (one store)
- Herman Kucharo, Inc., Des Moines, Iowa
- Root's, Summit, New Jersey

Two new stores were added to the Hart Schaffner & Marx group:

- Grieger's, Michigan City, Indiana
- Shulman's, Norfolk, Virginia

These and all other retail stores owned by the Company are quality stores with highly respected names of many years' standing in their communities. The individual names are retained because of their established reputation for quality and service.

A map on Page 20 shows the areas of the United States in which your Company owns stores.

The Company's retail division also has completed extensive remodeling projects. The cost of remodeling, coupled with the new building program, has been \$10 million in the last 10 years.

In 1965 five major remodelings were concluded and another begun. Frank Brothers of San Antonio, Lang's in downtown Akron, and The Man Store in Asheville, North Carolina, were completely remodeled.

Company retail stores shown on opposite page:

Top left: Men's clothing department in Littler's main downtown store, Seattle.

Top right: Men's clothing department in Zachry's new Greenbriar Shopping Center store, Atlanta.

Middle left: Teen Shop, Klopfenstein's new Northgate Shopping Center store, Seattle.

Middle right: Hastings' new Southland Shopping Center store in Hayward, near San Francisco.

Bottom left: Men's clothing department, Lang's new Summit Mall Shopping Center store, Akron.

Bottom right: "Adam's Rib" women's sportswear department of Root's, Summit, New Jersey.





Above: Women's department in the main downtown store of Littler, Seattle, Washington.

Hastings' main store at 135 Post Street in downtown San Francisco also was remodeled during the year. New downtown locations were leased for McLeod Watson & Lanier in Raleigh, North Carolina, where the store has been entirely remodeled, and for Wicks & Greenman in Utica, New York, where remodeling is now under way.

Continued expansion of the retail division is assured. Plans have been made to open 11 additional shopping-center stores during the next 18 months:

- Wolff's of St. Louis in Northwest Plaza
- Hastings of San Francisco in Del Monte (Monterey)
- Wolf Bros. of Tampa in West Shore
- Silverwoods of Los Angeles in Newport (Corona del Mar) and Inland (San Bernardino)
- Baskin of Chicago in River Oaks (Calumet City)
- Stevens of New Orleans in Oakwood
- Leopold Price & Rolle of Houston in Memorial City
- Lang's of Akron in Chapel Hill
- Levy's of Jacksonville, Florida, in Regency Square
- Walkers, of Dayton in Salem Mall

Additional shopping-center locations are being negotiated.

Profits for the retail store division reached a new high for the 1965 fiscal year which ended November 30. The retail stores again contributed substantially to the Company's sales and earnings by reporting record-breaking volume of \$120 million including leased departments.

The stores set another sales record for December, the first month of the 1966 fiscal year.

The retail stores make many important contributions to the Company. They keep management informed concerning retail trends and consumer preferences. They provide your Company with additional economic stability. The placing of orders early in the season enables the manufacturing operation to maintain a steady production flow. These timely commitments also enable raw materials buyers to place their orders promptly. Merchandising and operating techniques perfected by the Company's retail stores are shared with all independent dealers.



Earnings. Consolidated earnings of \$8,124,000 for 1965 set a new record high for the third successive year. They were 55 per cent above 1964's \$5,255,000 and 107 per cent above 1963's \$3,916,000. Hickey-Freeman's earnings are included in the consolidated earnings for all three years.

Per-share earnings also set a new record. For 1965 earnings were \$2.92 per share on 2,777,725 shares outstanding on November 30, 1965, as compared to \$1.95 per share on 2,699,534 shares outstanding on November 30, 1964, after adjustment for the two-for-one stock split in March 1965. After giving effect to the January 14, 1966, three-for-two stock split, per-share earnings for 1965 were \$1.95 on 4,166,587 shares outstanding on November 30, 1965, as compared to \$1.30 per share on 4,049,301 shares outstanding on November 30, 1964.

Hart Schaffner & Marx, Society Brand and Hickey-Freeman produced at near-capacity during the entire year and all contributed to the record earnings for the year. The retail store division established new records in both sales and earnings.

Sales. Consolidated sales for the year reached an all-time high of \$164,352,000. This represents a 14 per cent increase over the previous high of \$143,621,000 in 1964 and establishes new record highs for the seventh successive year. Sales volume increased substantially in all divisions. Retail store division sales increased to over \$120,000,000 including leased departments. Consolidated sales do not include leased department sales or sales by the manufacturing units to the retail store division.

Common Stock—Stock Splits. At the annual meeting March 22, 1965, the shareholders approved a two-for-one stock split and an increase in the authorized shares from 2,000,000 to 7,500,000 with a reduction in par value from \$5.00 per share to \$2.50 per share. The record date for the split and increase

in authorized shares was March 25, 1965.

At the December 16, 1965, meeting the directors voted a three-for-two stock split to stock of record January 14, 1966. There was no change in the current par value of \$2.50 per share and the additional shares were distributed February 4, 1966. At this same meeting the directors proposed an increase in the number of authorized shares from 7,500,000 of \$2.50 par value to 15,000,000 shares of \$2.50 par value to be voted on at the annual shareholders' meeting on March 28, 1966. The additional shares will provide for future acquisitions and stock splits and other corporate purposes.

Cash Dividends. The cash dividends paid in 1965 totaled \$2,542,000 and represented 31 per cent of earnings. The dividends were increased in the second and third quarters of 1965 and the first quarter of 1966 or three times within a 12-month period. After adjustment for the two stock splits, the three cash dividend increases raised the dividend on an annual basis from 53½ cents to 80 cents a share, a 50 per cent increase. Dividends have now been increased for the eighth successive year.

Working Capital. Working capital increased during the year from \$51,510,000 to \$55,857,000. The following schedule summarizes the changes which occurred in our working capital position.

| | |
|---|---------------------|
| Funds came from: | |
| Earnings for the year | \$ 8,124,000 |
| Depreciation, a non-cash expense | 2,032,000 |
| Proceeds of stock options exercised | 609,000 |
| Treasury shares used for acquisitions | 971,000 |
| Total | <u>\$11,736,000</u> |
| And were used for: | |
| Payment of dividends | \$ 2,542,000 |
| Reduction of long-term debt—net | 1,755,000 |
| Property additions—net | 3,076,000 |
| Other | 16,000 |
| Total | <u>\$ 7,389,000</u> |
| Increase in working capital | <u>\$ 4,347,000</u> |



CONSOLIDATED BALANCE SHEET

HART SCHAFFNER & MARX AND SUBSIDIARY COMPANIES

| assets | November 30, | |
|---|--------------|--------------|
| | 1965 | 1964 |
| CURRENT ASSETS: | | |
| Cash and government securities..... | \$ 3,060,996 | \$ 3,748,444 |
| Accounts receivable, less allowance for doubtful accounts—\$1,644,355 and \$1,463,094, respectively. | 26,466,053 | 23,340,371 |
| Inventories, at lower of cost or market..... | 49,060,228 | 42,704,706 |
| Prepaid expenses..... | 658,347 | 648,270 |
| Total current assets | 79,245,624 | 70,441,791 |
| CASH VALUE OF LIFE INSURANCE AND OTHER INVESTMENTS..... | 581,772 | 596,968 |
| PROPERTIES, at cost: | | |
| Land..... | 846,911 | 437,415 |
| Buildings and equipment..... | 22,074,206 | 20,343,471 |
| Leasehold improvements..... | 13,744,541 | 13,226,425 |
| | 36,665,658 | 34,007,311 |
| Accumulated depreciation and amortization..... | 23,307,276 | 21,693,177 |
| | 13,358,382 | 12,314,134 |
| | \$93,185,778 | \$83,352,893 |

(See accompanying notes to financial statements)

liabilitiesNovember 30,

| | <u>1965</u> | <u>1964</u> |
|--|---------------------|---------------------|
| CURRENT LIABILITIES: | | |
| Notes payable | \$ 1,000,000 | \$ 125,000 |
| Current maturities of long-term debt | 744,566 | 864,888 |
| Accounts payable | 12,284,473 | 9,834,384 |
| Accrued expenses | 5,701,647 | 4,934,384 |
| Federal and state income taxes | 3,658,139 | 3,172,792 |
| Total current liabilities | <u>23,388,825</u> | <u>18,931,448</u> |
| LONG-TERM DEBT, less current maturities: | | |
| 4 $\frac{7}{8}$ % note payable \$600,000 annually to 1983 | 10,200,000 | 10,800,000 |
| Other debt, extending to 1978 | 825,351 | 1,979,713 |
| | <u>11,025,351</u> | <u>12,779,713</u> |
| MINORITY SHAREHOLDERS' INTEREST | <u>1,265</u> | <u>171,612</u> |
| SHAREHOLDERS' EQUITY: | | |
| Common stock (Notes 1 and 2) | | |
| | <u>1965</u> | <u>1964</u> |
| Authorized shares | 7,500,000 | 2,000,000 |
| Par value | \$2.50 | \$5.00 |
| Issued shares | 4,169,926 | 1,367,438 |
| Capital surplus (Note 3) | 2,512,700 | 4,599,620 |
| Retained earnings (Note 4) | 45,847,444 | 40,265,464 |
| | <u>58,784,959</u> | <u>51,702,274</u> |
| Treasury Stock, at cost—3,339 and 17,671 shares respectively (Note 1) | 14,622 | 232,154 |
| | <u>58,770,337</u> | <u>51,470,120</u> |
| | <u>\$93,185,778</u> | <u>\$83,352,893</u> |



CONSOLIDATED STATEMENT OF INCOME

HART SCHAFFNER & MARX AND SUBSIDIARY COMPANIES

| | Fiscal years ended November 30, | |
|--|------------------------------------|---------------------|
| | 1965 | 1964 |
| Net sales | \$164,352,316 | \$143,621,098 |
| Other income | 722,880 | 747,413 |
| | <u>165,075,196</u> | <u>144,368,511</u> |
| Cost of goods sold | 99,810,617 | 89,496,079 |
| Selling, administrative and occupancy expense | 47,336,777 | 41,732,840 |
| Depreciation and amortization | 2,031,923 | 1,855,540 |
| Interest | 661,264 | 768,067 |
| | <u>149,840,581</u> | <u>133,852,526</u> |
| Income before taxes | 15,234,615 | 10,515,985 |
| Taxes on income | 7,110,451 | 5,261,471 |
| Net income for the year | <u>\$ 8,124,164</u> | <u>\$ 5,254,514</u> |

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

| | | |
|---|----------------------|----------------------|
| Retained earnings at beginning of year | \$ 40,265,464 | \$ 36,999,025 |
| Net income for the year | 8,124,164 | 5,254,514 |
| | <u>48,389,628</u> | <u>42,253,539</u> |
| <i>Deduct:</i> | | |
| Cash dividends (after giving effect to the stock splits described in Note 1), \$.61½ and \$.53½ per share, respectively | 2,542,184 | 1,851,622 |
| Dividends paid by Hickey-Freeman Co. prior to acquisition | | 136,453 |
| | <u>2,542,184</u> | <u>1,988,075</u> |
| Retained earnings at end of year | <u>\$ 45,847,444</u> | <u>\$ 40,265,464</u> |

(See accompanying notes to financial statements)

Notes to Financial Statements

NOTE 1—STOCK SPLITS:

On March 22, 1965, the stockholders approved an increase in authorized shares to 7,500,000, a decrease in par value to \$2.50 a share and a two-for-one stock split effective on March 25, 1965. A three-for-two stock split authorized by the board of directors on December 16, 1965, and distributable February 4, 1966, to stockholders of record January 14, 1966, has also been reflected in the accompanying financial statements and in Note 2 relating to stock options. On December 16, 1965, the board of directors also proposed an increase in the number of authorized shares to 15,000,000 of \$2.50 par value per share to be voted on at the annual meeting of stockholders on March 28, 1966.

NOTE 2—STOCK OPTION PLANS:

Under the Company's stock option plans, 257,881 shares of unissued common stock were reserved at November 30, 1965, for options granted or to be granted to officers and key employees. The changes in the number of shares under option during the year were as follows:

| | <u>Shares</u> |
|---|----------------|
| Under option—November 30, 1964, | |
| as previously reported | 66,582 |
| Adjustment to reflect both stock splits | |
| described in Note 1 | 133,164 |
| Options granted during the year | 70,875 |
| Options terminated during the year | (4,089) |
| Options exercised during the year | (67,612) |
| Under option—November 30, 1965 | <u>198,920</u> |
| Options exercisable—November 30, 1965 | <u>54,642</u> |

All options were granted at the highest selling price of the stock on the New York Stock Exchange on the dates of the grants. Options were exercised during the fiscal year 1965 at prices ranging from \$7.73 to \$18.25 per share, and options outstanding at the close of the year ranged in price from \$7.73 to \$28.33 per share.

NOTE 3—CAPITAL SURPLUS:

Changes in capital surplus during the year include a \$3,418,595 charge resulting from the three-for-two stock split applicable to the shares outstanding at November 30, 1965, and as described in Note 1, reduced by credits representing (1) the excess of proceeds from the sale of stock under stock option plans over the par value of the unissued shares sold (\$440,188), and (2) the excess of market value over cost of treasury stock exchanged in the routine acquisition of retail subsidiary companies during the year (\$891,487).

NOTE 4—RESTRICTION ON RETAINED EARNINGS:

Under the terms of the agreement relating to the 4½% note payable, \$31,895,000 of retained earnings at November 30, 1965, was restricted as to the payment of cash dividends.

NOTE 5—LEASES

At November 30, 1965, the Company and its subsidiaries were parties to 156 separate noncancelable lease agreements primarily covering retail store properties. These leases, expiring within one to 32 years, require minimum annual rental payments of \$4,100,000, and total minimum rentals payable over the remaining full term of the leases of approximately \$49,000,000. Certain of the leases provide for payment of taxes by the lessees and additional rental based on a percentage of sales in excess of stipulated minimums. The total rentals paid, including those under short-term cancelable leases, were \$5,982,000 in 1965 and \$5,264,000 in 1964.

To the Stockholders and Board of Directors of Hart Schaffner & Marx

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of income and retained earnings present fairly the financial position of Hart Schaffner & Marx and its subsidiary companies at November 30, 1965, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

CHICAGO, JANUARY 18, 1966

PRICE WATERHOUSE & CO.



15-YEAR SUMMARY

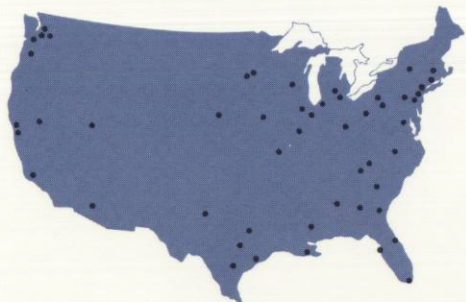
FINANCIAL POSITION

| At Nov. 30 | Working Capital | Properties Less Depreciation | Long Term Debt | Shareholders' Equity | |
|---------------|--------------------|------------------------------------|----------------------|-------------------------|-----------|
| | | | | Total | Per Share |
| 1965 | \$55,857,000 | \$13,358,000 | \$11,025,000 | \$58,770,000 | \$14.11 |
| 1964 | 51,510,000 | 12,314,000 | 12,780,000 | 51,470,000 | 12.71 |
| 1963 | 48,505,000 | 12,001,000 | 13,312,000 | 47,167,000 | 12.02 |
| 1962 | 33,515,000 | 10,866,000 | 5,768,000 | 38,754,000 | 11.50 |
| 1961 | 32,067,000 | 10,484,000 | 5,830,000 | 36,963,000 | 11.07 |
| 1960 | 30,408,000 | 11,097,000 | 6,350,000 | 35,461,000 | 10.67 |
| 1959 | 29,780,000 | 10,719,000 | 6,869,000 | 33,924,000 | 10.44 |
| 1958 | 28,139,000 | 11,123,000 | 7,253,000 | 32,267,000 | 9.83 |
| 1957 | 24,826,000 | 11,932,000 | 6,260,000 | 31,141,000 | 9.49 |
| 1956 | 23,287,000 | 11,903,000 | 5,467,000 | 29,928,000 | 9.12 |
| 1955 | 22,981,000 | 11,233,000 | 6,224,000 | 28,130,000 | 8.57 |
| 1954 | 22,523,000 | 11,307,000 | 7,041,000 | 26,952,000 | 8.21 |
| 1953 | 20,006,000 | 11,336,000 | 5,207,000 | 26,280,000 | 8.01 |
| 1952 | 19,097,000 | 12,039,000 | 5,903,000 | 25,416,000 | 7.74 |
| 1951 | 18,480,000 | 11,902,000 | 6,139,000 | 24,387,000 | 7.43 |

SALES EARNINGS DIVIDENDS

| Year Ended Nov. 30 | Net Sales | Income Before Taxes | | Net Income | | Earnings Per Share | Cash Dividends Per Share |
|--------------------------|---------------|------------------------|-------------------|---------------|-------------------|-----------------------|--------------------------------|
| | | Amount | % to Net Sales | Amount | % to Net Worth | | |
| 1965 | \$164,352,000 | \$15,235,000 | 9.3 | \$8,124,000 | 15.8 | \$1.95 | \$.62 |
| 1964 | 143,621,000 | 10,516,000 | 7.3 | 5,255,000 | 11.1 | 1.30 | .53 |
| 1963 | 126,023,000 | 8,089,000 | 6.4 | 3,916,000 | 10.1 | 1.00 | .47 |
| 1962 | 97,786,000 | 5,797,000 | 5.9 | 2,886,000 | 7.8 | .86 | .37 |
| 1961 | 90,737,000 | 4,613,000 | 5.1 | 2,509,000 | 7.1 | .75 | .32 |
| 1960 | 89,905,000 | 4,986,000 | 5.5 | 2,288,000 | 6.7 | .69 | .31 |
| 1959 | 83,142,000 | 5,261,000 | 6.3 | 2,811,000 | 8.7 | .87 | .25 |
| 1958 | 76,149,000 | 3,202,000 | 4.2 | 1,827,000 | 5.9 | .56 | .21 |
| 1957 | 80,812,000 | 3,397,000 | 4.2 | 1,895,000 | 6.3 | .58 | .21 |
| 1956 | 79,532,000 | 4,314,000 | 5.4 | 2,458,000 | 8.7 | .75 | .21 |
| 1955 | 74,771,000 | 3,797,000 | 5.1 | 1,736,000 | 6.4 | .53 | .17 |
| 1954 | 66,576,000 | 2,689,000 | 4.0 | 1,229,000 | 4.7 | .38 | .17 |
| 1953 | 68,867,000 | 3,042,000 | 4.4 | 1,425,000 | 5.6 | .43 | .17 |
| 1952 | 62,263,000 | 1,860,000 | 3.0 | 1,035,000 | 4.2 | .32 | .17 |
| 1951 | 61,672,000 | 3,266,000 | 5.3 | 1,519,000 | 6.5 | .46 | .17 |

Figures prior to 1963 have not been restated to reflect the acquisition of Hickey-Freeman Co. on a pooling-of-interests basis. All per-share statistics are based on stock outstanding at end of each year adjusted to reflect a 5-for-4 stock split April 3, 1956, a 2-for-1 split March 31, 1960, a 5-for-4 split February 8, 1963, a 2-for-1 split March 25, 1965, and a 3-for-2 split January 14, 1966.



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RETAIL STORES AND THEIR EXECUTIVE OFFICERS

BASKIN (7)—Chicago, Ill.
Earl Graham

BASKIN (2)—Champaign-Urbana, Ill.
L. C. Martin

BLACKBURN'S (2)—Amarillo, Tex.
Clarence P. Sigmon

CAPPER & CAPPER, LTD. (2)—Chicago, Ill.,
and Detroit, Mich.
Robert A. Ratty

FANNIN'S (2)—Montgomery, Ala.
Thomas H. Nelson

JACK FOX & SONS—Hammond, Ind.
Clarence L. Fox, Roland F. Fox and Robert F. Orr

ARTHUR FRANK (2)—Salt Lake City, Utah
Simon Frank and Russell G. Bartow

FRANK BROS.—San Antonio, Tex.
Stanley Frank, Sr., and Donald A. Miller

GRIEGER'S—Michigan City, Ind.
Dwight M. Bowman and Walter Leverenz

HAGSTRUM'S—St. Paul, Minn.
H. Vincent Hagstrum

HANNY'S (6)—Phoenix, Ariz.
Ben Projan

HASTINGS and MOORES (13)—San Francisco-
Sacramento, Calif.
George W. Clarke

HAYNES—Springfield, Mass.
Eric W. Danielson

HORSFALLS—Hartford, Conn.
James T. Foley

J. O. JONES—Charlotte, N. C.
William W. Watts

KLOPFENSTEIN'S and LESLIE-HUGHES (6)—
Seattle-Tacoma, Wash.
Hugh C. Klopfenstein

HERMAN KUCHARO—Des Moines, Iowa
Herman Kucharo

LANG'S (2)—Akron, Ohio
Frank M. Mark

LEOPOLD PRICE & ROLLE (2)—Houston, Tex.
Joyce Lehman

LEVY'S—Jacksonville, Fla.
Richard J. Lewinson

MORRIS LEVY—Savannah, Ga.
Morris Levy and Henry Lehwald

LIEMANDT'S—Minneapolis, Minn.
John A. Liemandt

LITTLER (3)—Seattle, Wash., and Pebble Beach, Calif.
A. A. Littler

HEYWARD MAHON—Greenville, S. C.
Bernard M. Lipscomb

THE MAN STORE—Asheville, N. C.
Stan L. Smolen

MCLEOD WATSON & LANIER—Raleigh, N. C.
G. Louis Schanze

MERRITT SCHAEFER & BROWN (2)—Austin, Tex.
S. H. Ashford

OLSON & VEERHUSEN (2)—Madison, Wisc.
Robert L. Whitson

DICK RICHMOND (2)—Miami, Fla.
William Handelman

ROOT'S—Summit, N. J.
Perry Franklin Root

ROSENBLATTS (2)—Portland, Ore.
T. Jackson Aycock

SCHRIEBER'S—Scranton, Pa.
Harold Barnett

SHULMAN'S—Norfolk, Va.
Leroy Shulman and Lewis Shulman

SILVERWOODS (11)—Los Angeles, Calif.
Stephen C. Bilheimer

SMALL'S—Lansing, Mich.
George J. Clark

STEVENS—Jackson, Miss.
William L. Featherstone

STEVENS (2)—New Orleans, La.
Leonard R. Porter

F. R. TRIPLER & CO., INC.—New York, N.Y.
S. S. Daily

C. N. VICARY CO.—Canton, Ohio
Francis J. Sweeney

WALKERS (3)—Columbus, Ohio
Paul F. Cockrell

WALKERS (2)—Dayton-Canton, Ohio
Glen L. Waltrip

WALLACHS (15)—New York, N. Y., and New Jersey
Robert J. Witt

WEATHERWAX—Sioux City, Iowa—
Carrol N. Smith and Glenn E. Turk

WICKS & GREENMAN—Utica, N. Y.
James G. Capps and Arthur R. Scoones

JAS. K. WILSON (5)—Dallas, Tex.
James K. Wilson, Sr., and Alex J. Cochrane

WOLF BROTHERS (3)—Tampa, Fla.
Fred L. Wolf and Harold F. Wolf, Jr.

WOLFF'S (2)—St. Louis, Mo.
Eric Pietras

ZACHRY (4)—Atlanta, Ga.
A. L. Zachry and John H. Brown

TEN PLANTS:

| | | | |
|--------------------------|-------------------|----------------|-----------------------|
| HART SCHAFFNER & MARX | Chicago, Ill. (3) | Joliet, Ill. | Rochester, Ind. |
| HICKEY-FREEMAN CO., INC. | Rochester, N. Y. | Buffalo, N. Y. | East Rochester, N. Y. |
| | | Hornell, N. Y. | Le Roy, N. Y. |

Number of store and plant locations indicated in parentheses.

HART SCHAFFNER & MARX

BOARD OF DIRECTORS

Paul A. Conley
Albert I. Freeman
Jerome S. Gore
John D. Gray
Walter M. Heymann
Walter B. D. Hickey, Sr.
Roger Hull
Joseph Halle Schaffner
Elmer Schlesinger, Jr.
Clay E. Steele
Harry L. Wells

OFFICERS

John D. Gray, *President*
Mario Ciucci, *Vice-President*
Joseph Curi, *Vice-President*
Harold R. Ellman, *Vice-President*
Hugh H. Gallarneau, *Vice-President*
Jerome S. Gore, *Vice-President*
William W. Rowlette, *Vice-President*
James K. Wilson, Jr., *Vice-President*
Richard W. Garbe, *Secretary and Treasurer*
John R. Meinert, *Comptroller*
Leonard G. Johnson, *2nd Vice-President*
L. Neville Rieman, *2nd Vice-President*
Charles A. DeChants, *Assistant Treasurer*
Max A. Hart, *Assistant Secretary*
Mark J. Lies, *Assistant Comptroller*

HONORARY DIRECTOR

Eugene Bashore

SOCIETY BRAND, INC.

Jan Ross, *President*

HICKEY-FREEMAN CO., INC.

Walter B. D. Hickey, Sr., *President*
Albert I. Freeman, *Senior Vice-President*
George W. Brayer, *Vice-President*
Paul S. Brescia, *Vice-President*
Thomas F. G. Hickey, *Vice-President*
James A. Logie, *Vice-President*
Frank P. Feerick, *Secretary*
Donald B. Parish, *Treasurer*
Richard W. Garbe, *Assistant Secretary-Treasurer*

HART SCHAFFNER & MARX AND SOCIETY BRAND OFFICES:

36 South Franklin Street, Chicago, Illinois 60606
Sperry Rand Building, 1290 Avenue of the Americas, New York, New York 10019

HICKEY-FREEMAN OFFICES: 1155 Clinton Avenue North, Rochester, New York 14601
Sperry Rand Building, 1290 Avenue of the Americas, New York, New York 10019

TRANSFER AGENTS: The First National Bank of Chicago, Chicago, Illinois 60690
Bankers Trust Company, New York, New York 10015

REGISTRARS OF STOCK:

Continental Illinois National Bank and Trust Company of Chicago, Chicago, Illinois 60690
Chemical Bank New York Trust Company, New York, New York 10015



HART SCHAFFNER & MARX



SOCIETY BRAND CLOTHES



HICKEY-FREEMAN



WALTER-MORTON
